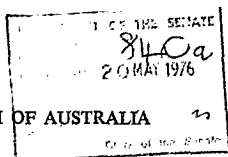


1976

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA



JOINT COMMITTEE OF PUBLIC ACCOUNTS

ONE HUNDRED AND
FIFTY-NINTH REPORT

TREASURY MINUTES ON THE
ONE HUNDRED AND FORTY-FOURTH,
ONE HUNDRED AND FORTY-SIXTH
REPORTS

TOGETHER WITH A

SUMMARY OF THOSE REPORTS

JOINT COMMITTEE OF PUBLIC ACCOUNTS

ELEVENTH COMMITTEE

D.M. CONNOLLY, Esquire, M.P. (Chairman)

The Hon. F. CREAN, M.P. (Vice-Chairman) (2)

Senator P.E. BAUME

Senator M.A. COLSTON

Senator A.J. MESSNER

J.L. ARMITAGE, Esquire, M.P. (3)

The Hon. J.D.M. DOBIE, M.P.

U.E. INNES, Esquire, M.P. (1)

S.A. LUSHER, Esquire, M.P.

V.J. MARTIN, Esquire, M.P.

J.R. SHORT, Esquire, M.P.

*The House of Representatives appointed its members on 3 March 1976
and the Senate appointed its members on 4 March 1976.*

(1) Discharged 8.4.76

(2) Appointed 8.4.76 elected Vice-Chairman 29.4.76

(3) Elected Vice-Chairman 16.3.76 resigned as Vice-Chairman 29.4.76

DUTIES OF THE COMMITTEE

Section 8 of the Public Accounts Committee Act 1951-1973 reads as follows:

8. The duties of the Committee are -

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of the Parliament by the Auditor-General in pursuance of sub-section (1) of section fifty-three of the Audit Act 1901-1950;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

ONE HUNDRED AND FIFTY-NINTH REPORT

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

CHAPTER 1 - INTRODUCTION

In its Seventy-ninth Report dated 10 March, 1966 the Committee set out in detail the basis of the Treasury Minute arrangements which have been made to ensure that appropriate action ensues from comments contained in our Reports.

P.P. No. 275
of 1964-65-66

As they now stand, the arrangements concerned are:-

- (1) The Report of the Committee is tabled by the Chairman in the House of Representatives and by a Member of the Committee in the Senate. Motions are moved in both Houses of the Parliament that the Report be printed as a Parliamentary Paper.
- (2) The Chairman of the Committee thereafter forwards a copy of the Report to the Departments affected and to the Treasurer with a request that he give the Report his consideration and inform the Chairman of the action taken to deal with the Committee's comments.
- (3) The reply received, which is in the form of a Treasury Minute, is then examined by the Committee and, together with the conclusions of the Report to which it relates, is submitted as soon as possible to the Parliament as a Report.
- (4) When during its examination of a Treasury Minute the Committee finds that there are recommendations not fully dealt with or which are subject to a further Minute, it holds an exploratory discussion with officers of the Department of the Treasury prior to the submission of the Minute to the Parliament.

- (5) In reporting a Treasury Minute to the Parliament, the Committee does not usually make any comment on the Minute other than to note recommendations not fully dealt with or subject to a further Minute. In special cases where comment is thought to be necessary, however, the Committee makes it.
- (6) The Committee reviews a Treasury Minute, if necessary, when it again examines the department concerned.
- (7) The Department of the Treasury furnishes the Committee with a half-yearly report on outstanding Treasury Minutes, indicating the progress made in dealing with the Committee's comments.

In accordance with the above arrangements for follow-up of the Committee's Reports, the then Treasurer conveyed to the Chairman of the Tenth Committee Treasury Minutes dated 19 May 1975 and 11 September 1975 relating to the One Hundred and Forty-Fourth and One Hundred and Forty-sixth Reports of the Committee respectively. The Treasury Minutes were examined by the Tenth Committee prior to the Double Dissolution of Parliament on 11 November 1975.

CHAPTER 2 - TREASURY MINUTE ON THE ONE HUNDRED AND
FORTY-FOURTH REPORT RELATING TO
THE DEPARTMENT OF EDUCATION AND SCIENCE

Committee's Conclusions
One Hundred and Forty-fourth Report
(29 May 1973)

Treasury Minute
(19 May 1975)

The Department of Education and Science was abolished on 19 December 1972 and its functions assumed by the newly created Department of Education and the Department of Science.

The Treasury has examined the Report and has discussed with the Department of Education and with other departments concerned the observations and conclusions of the Committee which have, where necessary, been brought to the notice of the officers concerned.

418. In approaching this general inquiry, the Committee accepted as a basic premise that the correct expenditure of public funds requires a sound departmental organisation providing for the following:

- (a) adequate organisation and staffing
- (b) a clear definition of policy and procedural guidelines
- (c) effective internal control and development programmes covering all aspects of departmental operations.

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419. Any assessment of the performance of the Department of Education and Science relative to these standards must recognise from the outset two important factors which have exercised a significant and continuing influence on Departmental management since the Department was formed in December 1966. The first factor to be noted is the phenomenal rate of growth in physical size and scope of functions which has occurred since December 1966. Secondly, and in stark contrast to this growth trend, there is the introduction of strict staff ceiling controls throughout the Commonwealth Public Service in February 1971, as part of a wider Government economy campaign. Either of these factors taken separately would pose substantial problems for effective personnel management and establishment control. Taken together they create a situation where sound administration of these areas, particularly in their developmental aspects, is extremely difficult to achieve.

ORGANISATION AND STAFFING

420. The Committee recognises that the interaction of both the abovementioned factors has, in the case of the Department of Education and Science, inhibited the development of a stable and balanced establishment which is fundamental to

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proper control of the various activities for which it is responsible. Having said this, however, we feel that there are three aspects of Departmental management relating to establishment and staffing which are deserving of criticism.

421. We were informed by the Public Service Board Observer that staff ceilings did not relate to specific positions within an organisation but to its overall establishment. We were also informed that within approved ceilings it was left to the Department itself to decide those positions which should be filled and those which should be left unstaffed. In these circumstances, we believe that the Department's decision not to staff approved internal audit positions in its Central and Northern Territory Offices, and positions approved for the management and control of stores and assets in its Northern Territory Office, was incorrect. We are also of the opinion that if these positions have not already been staffed, immediate action should be taken to ensure that they are.

422. Concerning staff training, we were informed that when the Department was established in 1966, no position

The Department has advised that all approved internal audit positions in Central Office and in the Northern Territory Office have been filled, although due to staff changes not all have been continuously occupied.

The Training sub-Section now consists of a Training Research Officer (Class 8), a Senior Training

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of Training Officer existed. We were also told that it was not until October 1968 that a proposal was submitted to the Board recommending a nucleus of a Departmental training organisation. The Committee believes that the absence of any provision for Departmental training represented a serious deficiency in the initial organisation concept, and that action should have been taken at a much earlier date to provide for an adequate Departmental training section. We are further of the view that the approved establishment of a Senior Training Officer at Class 6 level is inadequate to meet current training needs or to plan against future requirements given the stated expectation of continued and significant Departmental expansion.

Officer Grade 1 (Class 6), a Training Officer Grade 2 (Class 5) and a Clerk (Class 2/3). All positions are currently occupied.

423. Similarly, our investigation showed that it was not until June 1969 that approval was obtained for a position to develop the Department's internal audit function, and not until the following November that this position became operative. Given the essential nature of the service provided by internal audit for management, we consider that audit requirements should have been assessed and acted upon at the time the Department was formed in 1966.

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POLICY AND PROCEDURAL GUIDELINES

424. Where the Department has responsibility for implementing legislation, clear policy guidelines have been developed. However, there is still room for improvement in *respect of the documentation and maintenance* of Departmental procedural instructions and the introduction of regulations to ensure that these instructions are studied and followed.

425. Evidence submitted in connection with the maintenance and control of stores shows that while operating instructions for the A.C.T. have been developed in the form of a work manual, this very sensible approach had not been followed in the Northern Territory. We were also informed that there were no specific arrangements requiring stores personnel to read fire precaution instructions, and that existing procedures did not require the submission of written reports covering inspections of stores premises by local fire authorities.

426. During the course of our inquiry we asked whether written reports should be provided for study by client departments after fire inspections had been carried out. While neither the Department nor the Treasury Observer saw a need for such documentation, we consider that formalised

The Stores Accounting Instructions issued to the Northern Territory Office in September 1970 were re-written and re-issued to all stores personnel in that Office in August 1973.

The Department has made arrangements with the Chief Fire Officer, Canberra for inspections of each of its A.C.T. stores premises to be carried out and for written reports to be provided covering each inspection. The Chief Fire Officer will also provide instruction to stores

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reporting procedures are an essential feature of properly controlled inspection programmes and should be introduced in this instance without delay. We are also of the opinion that the study of Departmental fire precaution instructions should be made a compulsory job requirement in the case of stores staff, and that all store-keeping establishments should be covered by carefully documented and rehearsed fire drill procedures.

staff in the handling of fire-fighting equipment and arrange documentation of fire drill procedures. Similar arrangements have been made with the Chief Fire Officer Northern Territory.

427. During its examination of Departmental management of stores assets, the Committee sought to establish that store-keeping methods were satisfactory from Treasury and Audit points of view. Despite the deficiencies in documentation to which we have referred, we are able to report that the Observers representing the Department of the Treasury and the Auditor-General's Office assured the Committee that existing Departmental procedures were satisfactory.

CONTROL AND DEVELOPMENT PROGRAMMES

(i) Internal Audit

428. In its scope and organisation, the Department's internal audit system conforms with the guidelines specified in Public Service Board Circular 1968/20 of

The Public Service Board agrees with the Committee's suggestion that the aims of all Departmental audit programmes be amplified to require

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11 July 1968 which announced the introduction of a new internal audit structure for the Commonwealth Service. We noted that in accordance with the new concept developed by the Board, the Department's audit programmes were designed, inter alia, to provide corrective measures in respect of 'inadequacies in, or departures from, approved policies, procedures, controls and established practices'.

429. Earlier, the Committee commented in its 127th Report, concerning the Department of Social Services, that internal control systems were ineffective unless they protected the resources of the Department from fraud, as well as waste and inefficiency. Following on from this conclusion, it is suggested that the aims of all Departmental audit programmes might be amplified to require corrective measures in respect of irregularities, and inadequacies in, or departures from, approved policies, procedures, controls and established practices.

430. We were concerned to learn at the time of our inquiry that implementation of the Department's audit programmes was being impaired by management decisions to leave certain audit positions unstaffed,

corrective measures in respect of irregularities and inadequacies in, or departures from, approved policies, procedures, controls and established practices and is making arrangements to ensure that position classification standards relating to internal audit staff are appropriately worded.

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and to place restrictions on travel directly connected with the extension of audit systems to State Branch Offices. It is recognised that, within the context of recent economy measures, departments were required to scale down expenditure, and staffing and travel were two areas subjected to close scrutiny. Even so, it would seem to the Committee that an effective audit system is an indispensable adjunct to sensible economy measures. Accordingly, we believe that the Department ought to have accorded a higher priority to staffing audit positions and to the provision of funds needed to implement new audit programmes.

(ii) Departmental Training

431. The Committee was unable to examine Departmental training in any depth because this function was still in its developmental stages when we conducted our inquiry. It was noted when considering this matter that a review was in progress within the Department to establish training needs and organisation requirements. In view of the significant delays which have already occurred in establishing a viable training function, we would expect that this review will be concluded and acted upon as a matter of urgency.

Apart from induction and basic skill training, the Department sees three main areas of need for training:-

- (a) management/supervision training at both a State and Central Office level;
- (b) procedural training particularly at a State level to cope with the demands of processing the various entitlements under the new assistance programmes. The Public Service Board has approved instructor and training relief positions for this purpose;

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- (c) a personal development scheme
for staff at all levels.

The Department has determined a broad
training policy, to cover the above
needs, and the program is proceeding.

(iii) Finance Management

432. In examining the financial
administration of the Department in
the context of the present inquiry,
the Committee has been influenced by
the fact that it has had cause to
examine the Department of Education
and Science in connection with the
annual inquiries into expenditure from
the Advance to the Treasurer and the
Consolidated Revenue Fund in each year
since the Department was established
in 1966. Indeed it was largely
this factor and the findings arising
from these earlier inquiries, which
led to the conclusion that a more
generalised examination ought to be
made of the administration of the
Department.

433. In the circumstances, much of
the evidence tendered to the Committee
in connection with the financial
administration of the Department

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related to matters which have already been considered and reported upon. In this Report we have not attempted to focus attention on those issues which have already been the subject of detailed investigation and comment.

434. After considering all the evidence submitted in relation to finance management in this and earlier inquiries, there are two matters upon which the Committee wishes to comment, on this occasion:

435. Formulation of Estimates. In its examination of the Department's financial performance the Committee has noted that particularly in areas where estimates of expenditure have been formulated by or with the guidance of State Government instrumentalities, substantial shortfalls have occurred in expenditure compared with the corresponding estimates. Notable examples of this are evident in the case of Commonwealth financial assistance for technical training; State Colleges of Advanced Education; Teachers Colleges and Pre-School Teachers' Colleges.

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436. The Committee has encountered the problem on several occasions in recent years during its annual inquiries into expenditure from the Consolidated Revenue Fund and it is a matter for increasing concern that the problem appears to be affecting a widening range of Commonwealth estimates as Commonwealth and State financial relationships grow in complexity.

437. The Committee is aware of the reluctance of some States to adopt the use of Additional Estimates within their own budgetary structures and on this we would not presume to comment. However, we have noted for some time that it is normal practice for the States to submit each year, a single figure for each of their financial requirements to the Commonwealth department concerned for inclusion in the Commonwealth Budget. We believe that a useful purpose might be served if the State authorities were requested to formulate their initial requests for funds each year on the understanding that these requests would be subject to adjustment later in the financial year in the context of the Additional Estimates.

The Committee is concerned here with the disparity between actual expenditure and estimated expenditure figures as shown in Table 7 of the Budget Paper entitled Estimates of Receipts and Summary of Estimated Expenditure. These estimates are reviewed at intervals as stated below, but they are Special Appropriations and thus are outside the reviews of annual appropriations under Additional Estimates procedures. The disparities which concern the Committee can only be corrected by the formulation of more accurate estimates in the first instance and the adoption of improved cash flow techniques by the States. The Department is applying itself to both these aspects.

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438. In this regard we note with satisfaction that, arising from similar observations made in our Ninety-sixth Report, and reported on by the Department of the Treasury in the subsequent Treasury Minute, the Department of Health has adopted a new procedure for preparing estimates under which the States will be given the opportunity to review in May the estimates submitted in February and to revise these again in the following January/February.

439. School Janitor Services - Northern Territory. As reported earlier in connection with cleaning contracts for Northern Territory community schools, additional information was received by the Committee relating to the contract approved for the Nhulunbuy area school after the general departmental inquiry had concluded. This information, which relates to the number of tenders submitted to the Northern Territory Administration Tender Board, conflicts with evidence taken earlier at public hearings. The Department of the Treasury has been informed of these developments, and is now reviewing all aspects of the Nhulunbuy contract prior to re-submitting the matter for re-examination by the Committee.

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For the purposes of economic review all departments are requested each year to review estimates of revenue and expenditure in January and again in May. Where appropriate this review is carried out in conjunction with the State Treasuries. The procedure adopted by the Department of Health is related to annual appropriations.

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440. Pending a final and definitive report from the Department of the Treasury it is not possible to comment at length on the manner in which the Nhulunbuy contract was handled. However, the information so far available suggests that evidence tendered to the Committee was incorrect. There is also evidence of carelessness both in respect of the preliminary costing of the contract, and the examination of contract documents prior to the final acceptance of a tender.

441. This matter will be the subject of further comment when the above-mentioned report has been received from the Department of the Treasury.

The report was presented to the Committee on 30 July 1973.
(See Chapter 6 of the Committee's One Hundred and Forty-ninth Report).

GENERAL OBSERVATIONS

(i) Staff Recruitment

442. As our inquiry into the Department progressed, it became increasingly evident that inability to recruit and retain specialist staff was the most serious and persistent problem confronting

The Public Service Board has advised that the difficulties in the recruitment of specialist staff noted by the Committee at the time of the enquiry have subsequently abated. The procedures introduced in 1969

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management. From evidence tendered to the Committee, it was also apparent that centralised recruiting procedures introduced by the Public Service Board in 1969 were not fully understood by the Department nor entirely acceptable to it in their present form.

443. It is unlikely that this reaction is confined exclusively to the Department of Education and Science, and also possible that lack of understanding and acceptance generally has limited the effectiveness of centralised recruiting. The Committee suggests therefore that the Board might examine its original proposals to see whether some modification is necessary, and check with other departments to ensure that approved procedures are fully understood and being applied as intended. We also feel that it would be prudent, when introducing complex and important procedural innovations of this kind, to place greater emphasis on prior consultations with departments, to ensure that new arrangements are fully understood before they come into effect.

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for the recruitment of specialist-technical staff to the Public Service have been kept under review by the Board and some changes have been made; others are under consideration. The present procedures are understood and accepted as generally adequate by departments.

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(ii) Legislation

444. From the evidence tendered in respect of the new Scholarships Act 1969, it is clear that undue delays are still occurring in the preparation of subordinate legislation. We were told that the new statute, which had been designed to replace the Education Act of 1945-1966, was given the Royal assent on 9 May 1969. It continued to remain inoperative at the time of our inquiry in March 1972, because supporting regulations had not been drafted.

445. In its One Hundred and Third Report, the Seventh Committee recommended, inter alia, that the Public Service Board and other authorities should ensure the availability of adequate administrative machinery to permit the prompt drafting of regulations. The experience of the Department of Education and Science in connection with the Scholarship Act 1969 indicates that the improvements sought by our predecessors have not yet been provided.

446. We again invite the attention of the Public Service Board and other relevant authorities to the very

The Attorney-General announced new measures on 7 March 1973 designed to overcome past difficulties in the drafting of subordinate legislation. These measures provided for the drafting of legislation for the Parliament to be undertaken by the Office of Parliamentary Counsel and the drafting of subordinate legislation to be undertaken by a newly created Legislative Drafting Division in the Attorney-General's Department. These new arrangements have proved to be successful and most deadlines set by Ministers or departments have been met.

Additionally the Legislative Drafting Institute Act, assented to on 9 December 1974, established a Legislative Drafting Institute to conduct courses of training and give instruction in legislative drafting to ensure that an adequate number of experienced and capable draftsmen will be available and thus obviate the shortages of past years. It is expected that the first course will commence late in May 1975.

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considerable delays occurring in the preparation of subordinate legislation, and recommend that they re-examine the remedial measures outlined in paragraph 37 of the One Hundred and Third Report. In particular, we feel that further consideration might profitably be given to the suggestion that competent lawyers outside the Commonwealth Service might be employed under contract to draft subsidiary legislation.

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FORTY-SIXTH REPORT RELATING TO
THE REPORT OF THE AUDITOR-GENERAL - 1971-72

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The Treasury has examined the Report and has discussed with the departments concerned the observations and conclusions of the Committee which have, where necessary, been brought to the notice of the officers concerned.

DEPARTMENT OF AIR
(Now Department of Defence - Air Office)
Accounting for Supplies Purchased Overseas

35. The Committee was informed that the increasing volume of equipment and stores purchased from the United States Services had caused difficulties within the Department's Billings cell, particularly with regard to the matching of items received with items billed. This resulted in a decision by the Department to effect reconciliation of overseas billings by electronic data processing.

36. The evidence suggests that the original basis selected for matching by computer was not practicable due to frequent changes to stores catalogue numbers. In view of the past difficulties the Department has had with

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computer applications, the Committee considers that the Department should not have accepted the basis for matching suggested in the feasibility study without question, or allowed the manual accounting system in regard to new projects to lapse before the computer had been proven.

37. From the evidence it seems that it took 2 years for the Department to have additional positions created and filled in the Billings cell. This appears to the Committee to be quite an excessive period, having regard to the evidence that during those 2 years inexperienced staff from other sections worked overtime and the Department did not consider this overtime scheme to be successful.

38. The Committee notes that it was expected that a further proposal to upgrade and strengthen the staff establishment of the Billings cell would be submitted to the Public Services Board within a fortnight of the inquiry. The Committee was also assured that, after approval of the additional positions and appointment of staff, progressive improvement in the overall situation could be expected. The Committee wishes to be informed of the current position with regard to staffing and the clearance of discrepancies.

The Department of Defence Air Office has made substantial progress with the clearance of discrepancies in billings reported by the AQDBIL sub-system.

The number of lines of billing discrepancies in query state had been reduced from the 19,000 lines shown in paragraph 8 of the Departmental submission to the Committee to 3,104 in December 1974. In respect of discrepancies where receipts exceeded billings, the number of lines in query state had

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been reduced from 23,000 to 9,224 in the same period. The Department has advised that the additional positions created in the billings cell in 1968 were fully staffed in 1968 while a further five positions created in 1970 were also filled within about six months. The Department has explained that the evidence given at the inquiry by the departmental witness concerning the period over which overtime was worked, was not intended to mean that it took 2 years to obtain staff to fill positions approved in 1968. Pending the recruitment of additional staff in both 1968 and 1970, it was necessary to work overtime - in the earlier stages with inexperienced staff and later with more experienced staff.

The Department considers that the establishment as now provided is adequate for the proper functioning of the billings cell under the present accounting procedures and workload.

DEPARTMENT OF CIVIL AVIATION
(Now Department of Transport)

68. The evidence shows that the frauds were perpetrated during the period from July 1970 to February 1971 by a number of officers within the salaries section in collusion with other participants. It appears that a significant factor in the frauds was the failure of departmental

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officers to observe internal controls and checks specified in Treasury Regulations, Treasury Directions and Departmental instructions.

69. The Department pointed out that the irregularities were facilitated by the increased volume of work, and the general inexperience of the staff within the salary section. The Committee believes that the Department has been at fault in failing to ensure that the section was adequately staffed, that effective internal control procedures were in existence and that existing control procedures were being observed.

The Department agrees with the conclusions of the Committee.

70. The Committee must express surprise and concern that the internal audit checks carried out during the period of the frauds did not detect any of the irregularities mentioned in the evidence. We note with satisfaction that Departmental procedures and internal checks have since been amended and strengthened.

The Department has advised that during the period of the frauds, expenditure vouchers were scrutinised by internal audit to ensure that prima facie they were in order, but with a limited number of internal audit staff it was possible to audit only one complete pay in depth. The pay selected did not contain any fraudulent vouchers.

DEFENCE SERVICES
Procurement in the United States of America

126. In its examination of this matter the Committee has directed its inquiries to the administrative effectiveness of checking billings received from the U.S. Armed Services for equipment and stores supplied to the Australian Armed Forces.

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127. At the time of this Inquiry 165 billings were outstanding from the U.S. Navy, some relating to advances made many years previously. Some aspects of the delays in the receipt of billings from the U.S. Services were examined in our Seventy-eighth and Ninety-eighth Reports relating to the Reports of the Auditor-General for the financial years 1964-65 and 1966-67. We indicated that continuing attention should be devoted to the problem of obtaining billings promptly from the United States authorities.

128. The evidence shows that audit test examinations of a selection of billings during 1971-72 disclosed several instances of substantial overcharges, approximately \$US900,000 overall, in respect of accessorial charges for equipment and stores supplied by the U.S. Armed Services to Australian Service Departments.

Credit adjustments received to 30 June 1973 were in excess of \$US850,000.

DEPARTMENT OF THE NAVY
(Now Department of Defence - Navy Office)

129. The evidence shows that in the Department of the Navy detailed comprehensive instructions concerning the checking of billings were not available

The Department of Defence - Navy Office has advised that as a result of staff reorganisations in the Navy Supply Division the backlog of

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in a consolidated form and as a consequence staff had not been fully informed of their duties. The Committee is disturbed by the evidence that one of the five supply directorates of the Department of the Navy had not been checking accessorial charges. The Committee was informed that the probable overcharges in respect of the Department of the Navy was \$US872,234.

billings requiring check has been overtaken. The Department considers the present position on certification of billings to be satisfactory.

The Directorate of Armament Stores has further examined those billings on which accessorial charges had not previously been checked. No discrepancies were disclosed.

130. While the Committee appreciates that appropriate detailed comprehensive instructions in a consolidated form for the certification of billings have been issued by the Department of the Navy, we must express surprise and concern that such instructions were not developed at an earlier stage having regard to the nature and extent of the Department's procurement programme.

DEPARTMENT OF THE ARMY
(Now Department of Defence - Army Office)

131. The Auditor-General's Report did not instance accessorial overcharges in billings to the Department of the Army but it reported apparent inadequate checking of billings.

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132. The Department of the Army disagreed with the 1968 Public Service Board/Treasury Report on a matter of principle as to whether the accessorial charges should be checked in the U.S.A. or in Australia. The report recommends that as much checking and follow-up action should be taken in Australia as possible.

133. The Department informed the Committee that in view of its interpretation of the Report and because no detailed information was available to its Central Office on which useful checks could be based, it considered that its responsibility to perform checks on billings in Australia was limited to verification in terms of contractual arrangements of types and quantities of equipment and stores received, and verification that total expenditure including expenditure for accessorial charges, remained within approved bounds.

134. It is clear from the remarks made by the Observers that, under direction of paragraph 117 of the Public Service Board/Treasury Report, the Department has responsibility for checking accessorial charges in Australia. The Committee agrees with the Audit Observer that it is possible and practical for certain checks on accessorial charges to be carried out in Australia.

The Department of Defence - Army Office has arranged for the check of accessorial charges to be carried out in Australia. A checking programme has been devised for which no additional staff is required.

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DEPARTMENT OF AIR
(Now Department of Defence - Air Office)

135. Audit examinations of the billings received by the Department of Air from the U.S. Armed Services revealed a number of incorrect accessorial charges.

136. The Committee was informed that prior to the receipt of the Audit queries, the Department believed that Australian Offices in North America verified the correctness of accessorial charges. From enquiries made as a result of the Audit queries it became evident that the checking had been limited in scope. The Committee is surprised that the Department was not aware of the nature and extent of the checking of billings carried out by the Air Attache's Office in the U.S.A.

137. The Committee notes that the overcharges had been financially adjusted and that action has been initiated to increase staff at the Department's Central Office to conduct the checking of billings and to locate a group of three Australian staff in Washington to oversight all financial aspects of procurement in the U.S.A.

Although the proposal to locate a group of three Australian staff in Washington to oversight financial aspects of procurement in the United States was not approved by the Public Service Board, the Department of Defence - Air Office has advised that accessorial charges on all US Service billings received have been checked and as a result, claims for refund totalling \$US 125,396.18 have been accepted by the US billing agencies.

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138. The Committee considers it most unsatisfactory that inadequate checking of billings by the Service Departments has persisted for so many years. The Committee notes the various measures that have been proposed to overcome the earlier deficiencies and agrees with the aim that the departments concerned should endeavour to check billings as soon as they are received. The Committee wishes to be informed of the current position of the proposals that were being formulated to increase the number of staff engaged in checking billings and also the state of the checking programme for each Service Department.

PUBLIC SERVICE BOARD
Incorrect Payments to Officers Leaving the Service

156. The Committee cannot but feel, in view of the Auditor-General's remarks on the incidence in three successive financial years of incorrect payments to officers leaving the Service, that the efforts of the Public Service Board to effect improvements have not been fully supported. The Committee believes that the Board could not have done much more than it has done, - not only in this area but also in other areas of

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personnel administration. The Board has issued circulars to departments, drawn its Public Service Inspectors' attention to the problem, publicised the problem in its 1972 Annual Report, and revised its instructions relating to invalidity retirement procedures; and has also initiated a Manual of Personnel Procedures, a review of the personnel and finance areas of the management services function, a Code of Personnel Administration, and centralised personnel and establishment records ('Mandata'). The Committee commends the Board for its actions and initiatives, and trusts that, at least in the long term, improvements will ensue.

157. The Committee is concerned that the performance of departments in this area of personnel administration has, generally, been less than satisfactory; and is further disturbed that some departments - despite pressures from the Auditor-General's Office and the Board - had not, at the time of the inquiry, made retrospective checks. In this connection the Committee notes that Treasury Circular 1973/15 was issued on 13 September 1973 directing departments to check all separation payments made to officers since 1 January 1973.

The Treasurer's approval for checks of separation payments was restricted to those made to officers who left the Service after 1 January 1973, mainly because of the magnitude of the checking task. During 1970-71 and 1971-72 more than 28,000 permanent officers and a greater number of temporary employees left the Service. The time needed to check the records of the 28,000 permanent officers has been estimated as six man-years and the cost at between \$50,000 and \$70,000, which

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The Committee would like to be informed if checks are to be made of separation payments made to officers who left the Service prior to 1 January 1973 and if not, the reasons why it was decided not to do so.

could well be in excess of the total amount of the errors likely to be disclosed. In addition, many of the overpayments would have been difficult to recover and a good deal of ill-feeling would have been caused because of the effluxion of time.

DEPARTMENT OF SUPPLY
(Now Department of Industry and Commerce)
Munitions and Aircraft Production Undertakings

Maintenance of production capacity at Government factories

196. The Committee was concerned to learn in the Auditor-General's Report that, in the Department's view, the Central Drawing Office did not have a viable work load after the transfer of much of its work and staff to the Defence Printing Establishment. The Office, which had previously been able to recover costs by charges for work done, required subsidisation. The alternative, which was to raise charges, was tried and found to be self-defeating. The Committee questions whether sufficient attention was given to the future work-load of the Central Drawing Office when the decision was made to amalgamate the defence printing establishments. The Committee also questions whether the

The Department states that the future of the Central Drawing Office was under consideration concurrently with the decision to amalgamate the defence printing establishments but that because of the change of role the future work-load of the Central Drawing Office was not a primary consideration. The delay in establishing the Defence Printing Establishment was mainly due to factors outside the control of the Department, including building and works aspects.

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time lapse between the establishment of the interdepartmental committee in August 1968 and the transfer in January 1972 was necessary.

197. From the evidence tendered, it would seem to the Committee that it was, *prima facie*, inappropriate for the source of subsidy to the Central Drawing Office to be an appropriation for reserve capacity maintenance. The Committee was told that such an appropriation was justified on the ground that facilities at Government munitions factories should be maintained at a level appropriate to war-time emergency conditions. In view of the transfer of much of the work of the Central Drawing Office to the Defence Printing Establishment, the Committee queries whether the work that remained bore a close relation to defence requirements.

198. The Committee appreciates the dilemma in which the management of the Central Drawing Office found itself after the transfer of functions, but is nevertheless critical. The Office should have foreseen that, by increasing the drafting rate to an uncompetitive level, orders would be lost, and the purpose of the increase defeated. On the other hand, if the Office had not

Provision of Reserve Capacity Maintenance for the Central Drawing Office was only a short term measure. Subsequently some activities were transferred elsewhere and the residual work, which was almost entirely connected with defence requirements, was financed from administrative appropriations from 1 July 1973. The Treasury's view is that there was no alternative to the procedure that was adopted from the date of transfer until the Central Drawing Office ceased operations.

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known that the increased rate would prove to be uncompetitive, the Committee believes that it should have been more aware of the market reality.

199. The Committee notes from the Auditor-General's Report for 1972-73, that the Central Drawing Office ceased to operate as a separate undertaking from 1 July 1973.

200. With regard to the Clothing Factory, the Committee finds it difficult to understand why financial provision had not been made to cover the loss in productivity arising from the Factory's relocation from South Melbourne to Coburg. The omission is even harder to understand in view of the fact that provision had been made to cover the actual relocation costs. The Committee does not consider that the Department should have been expected to have previously assessed with any degree of accuracy the loss of trained staff, nor the extent of union opposition to changes in engineering practices, but the Committee does find it remarkable that no loss in productivity had been anticipated at all.

The Department agrees with the comments of the Committee.

201. The Committee accepts that, in view of the Clothing Factory's need to maintain market competitiveness, there was a case for the postponement of revision of the price list. It seems, however, that part of the

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reason for the postponement was the heavy workload involved in the re-location of the Factory. The Committee notes the Department's decision to implement a more detailed, computer-oriented costing system, enabling garments to be re-priced much more quickly.

202. It is clear from the evidence tendered that the introduction of industrial engineering practices at the Clothing Factory created, in the short term, more problems than it solved. The Committee trusts that, in the longer term, the introduction will prove to have been worthwhile.

203. The Committee commends the Department for its strong efforts to improve efficiency at the Clothing Factory.

Over-expenditure by the Government
Aircraft Factories

204. The Committee is concerned that work stress at the Factories had been such that the staff of the Sales Order Section had been unable to devote sufficient time to progress reviewing of manufacturing performance against orders. The evidence suggests that, in view of the volume of work needed to be done in the Section, additional staff were required to undertake progress reviews. The Committee takes the view that, not only should progress reviews be undertaken in respect of all work orders, but that the Factories' management should do all in its power to enhance their quality.

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The Department feels that the introduction of Industrial Engineering Standards has ensured that each bonus paid is a true reflection of increased output, and is at the same time making a significant contribution to efficient management and control.

The new organisation for the Sales Order section of the Government Aircraft Factories, with direct responsibility to the Assistant Manager Administration, was approved by the Public Service Inspector on 10 July 1973. Progress reviews are being undertaken in respect of all work orders and progress has been achieved, but over-expenditure has not been entirely eliminated.

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205. The Committee cannot accept that initial poor estimating explains over-expenditure on orders to any great extent. With provision for progress reviews such as the Department described, initial poor estimating should be corrected before over-expenditure looms as a reality. On printout of an investigation tabulation, after 70 per cent of available funds have been expended, a more accurate re-estimate can be made. In extraordinary cases, when cost-increasing factors arise after re-estimating, over-expenditure should be avoidable. Alertness on the part of the Sales Order Section to these factors, and quick action, should ensure downward adjustment of work programmes, re-allocation of funds provisions, or special arrangements for supplementary funds.

206. In making its criticism, the Committee is mindful of difficulties faced by the factories' management - namely, work pressure on some staff, inexperience or inefficiency of some staff, lack of experience of particular kinds of orders, the policy decision to concentrate on off-set contracts, high and frequent rises in labour and materials costs, technical problems encountered in production, and late variation of order requirements. The Committee regards each of these factors as significant, but does not believe any, or all of them together,

The Department agrees that poor estimating is not now the major factor in overexpenditure on orders. Some problems occur with initial orders of new items and development work but expenditure is closely controlled and re-estimates and re-quotes made as required. The main limitation of the tabulation produced after 70% expenditure has been achieved is that it is not available until three weeks after the completion of the accounting period, which obviously reduces its value as an aid to management control. A new procedure is being investigated which would enable the tabulation to be produced two days after the completion of each working week.

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provides an excuse for over-expenditure.

In saying this, the Committee recognises that each of these factors may be beyond the management's control.

207. The Committee is particularly disturbed that some past orders have been commenced on the mistaken understanding that they represented firm and fixed technical requirements. The Committee is neither anxious nor in a position to attribute blame, but trusts that, in the future, orders are not commenced until both client departments and the factories are certain about what is required. It would appear that closer liaison between client departments and the factories is needed as well as better enunciated orders. From an estimating point of view it is clearly a wholly unsatisfactory state of affairs when the factories staff does not know that a particular order represents work of an experimental or developmental nature.

208. The Committee notes the various remedial steps taken by the Department following the representations by the Auditor-General's Office, and is satisfied that each of them will contribute to the eradication of the over-expenditure problem. It wishes to be informed of the results of the review of procedures undertaken by the working party referred to in the Auditor-General's Report, and also of what follows from the findings of the

Every precaution is now taken to ensure that no misunderstanding exists between customer and factory on the technical requirement of each order.

The second interim report of the working party on the accounting arrangements and financial statements of the undertakings controlled by the Department of Supply (now the Department of Manufacturing Industry) was submitted to Ministers in September 1974. Following subsequent meetings of the Working Party a pilot study based on the proposed new costing and accounting arrangements is to

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working party set up to report to the Treasurer and the Ministers for Defence and Supply on accounting arrangements for munitions and aircraft production undertakings.

be commenced at Ordnance Factory, Maribyrnong in May 1975. If the results for the financial year 1975/76 prove acceptable the new arrangements will be extended to the remaining factories as soon as possible.

DEPARTMENT OF THE TREASURY
Works Services Trust Account

222. The Auditor-General's Office had no precise criticism to make in relation to the Works Services Trust Account. Its concern appears to have been to draw the Department of the Treasury's attention to what it considered to be a dubious, but not irregular, practice. This practice has been the Department of Works' retention of substantial credits in the Account to cover long-term liabilities accruing for employees' furlough, and the use of these credits and other credits in the plant hire section of the Account, to fund other authorised operations of the Account. The Committee understands that the legality of the practice queried was not in issue.

223. The method by which the substantial credits in question were collected was also not in issue. The Audit Observer, Mr Harrington, recognised the legitimacy of on-cost

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charging of departments in respect of particular projects as a method by which provision could be made for furlough liabilities.

224. In its submission the Department of the Treasury informed the Committee that - "In regard to undertakings operating through trust accounts it has been established that at least four different methods of providing for and paying furlough exist". The Treasury had established this from oral inquiries made after 8 May 1972. It appears that the different methods arose by historical accident, and that no general principles were laid down. The Committee believes that the Treasury should have known precisely how many methods there were and the details of each method as a normal result of the Treasury surveillance of trust accounts and their operation. It is also of some concern to the Committee that no general principles had been laid down nor apparently any consideration given to the necessity to do so.

Policy guidelines have been formulated based on general principles of accounting for furlough. These guidelines have been circularised to departments for comment and the Committee will be informed of the result when final decisions have been taken.

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225. The Committee commends the Treasury for the promptness with which it reacted to the approach by the Auditor-General's Office and its action in instituting a review and appraisal of the practices followed by departmental business undertakings operating through trust accounts. The Committee assumes from the Auditor-General's Report for 1972-73 that a major part of the review has been completed and that apparently the Treasury concurred in the procedures being followed by the Department of Works for building up credits to cover liabilities for furlough provided the credits built up in the Account are not excessive. While the Committee appreciates that keeping these provisions at a reasonable level would remove most of the objections to the present practice, the Committee believes that the method outlined by the Treasury during the inquiry (paragraph 220) offered a better means of ensuring that substantial credits would not accumulate. The Committee, therefore, wishes to be fully informed of the results of the review and the reasons why the present method is preferred over the alternative outlined during the inquiry.

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DEPARTMENT OF WORKS
(Now Department of Construction)
Melbourne (Tullamarine) Airport -
Claim against Private Consultant

249. The Committee believes that the Department probably erred in the process of its selection of a private consultant firm to assist with the construction programme at Melbourne (Tullamarine) Airport. It was not made clear during the inquiry that sufficient effort had been made before the selection to ensure that the firm proposed was adequately equipped for the work in hand. Nor was it made clear that other consultant firms had been considered for the work. It was quite apparent, however, that the selected firm made some costly blunders. In criticising the Department's selection, however, the Committee recognises the benefit available to it of hindsight.

250. During the inquiry, considerable time was spent canvassing possible methods for the selection of consultants. The Committee was neither fully satisfied with the method of selection used in the particular instance nor with the generally prevailing methods described. If, indeed, it

The Department considers that every effort was made to ensure that the consultants selected had the demonstrated ability, adequate resources and capability of carrying out the commission. At the time, the proposed type of structural work was relatively new in Victoria and few consultants were available with the experience and expertise in this area. The firm eventually selected was first commissioned to investigate and report on the capacity of the industry to manufacture pre-stressed concrete components. Subsequent to this report the Department discussed a number of available consultants and it was agreed that the firm finally commissioned was the most suitable for the task.

Where several individuals or organisations are considered to be suitable for carrying out a particular commission, the merits of at least three are considered against the detailed selection criteria developed within the department - the selection of the consultant

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is inappropriate to advertise for consultants and seek tenders, then the Committee believes that alternatives along the lines suggested by the Treasury Observer, Mr Davidson, should be explored.

251. In addition, the Committee is concerned that the Department may have overpaid the contractor, and that this possibility could have acted to the advantage of the consultant firm in any court proceedings in judgment of the claim. The Committee was disturbed to hear from the Departmental witness that the contractor had claimed excessive amounts for modification costs, over which the Department had no control. Finally, the Committee expresses concern at the whole sequence of events relating to this contract and considers that every effort should be made to prevent a recurrence.

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for the Tullamarine terminal frame was made from the limited number of consultants who at that time met the selection criteria in relation to the type of pre-cast, pre-stressed concrete structural work involved.

The difference in approach between that suggested by the Treasury Observer, and that adopted by the Department, is that the selection be made from a panel of names submitted by a professional association as against a number of firms known to the Department to possess the required expertise. Regardless of whether the consultant is selected by the Department independently, or with the assistance of a professional association, the responsibility for final selection still rests with the Department.

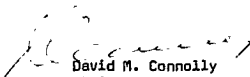
The Department shares the Committee's concern at the sequence of events that occurred. Arrangements are being made for the Committee's Report relative to this matter to be circulated within the Department with instructions that every effort be made to ensure that similar circumstances do not recur.

For and on behalf of the Committee,



T. Devine
Secretary
Joint Committee of Public Accounts
Parliament House,
CANBERRA A.C.T.

6 May 1976



David M. Connolly
Chairman